

Developments in the Retail Sector

Alan Giles, Associate Fellow

19 June 2018



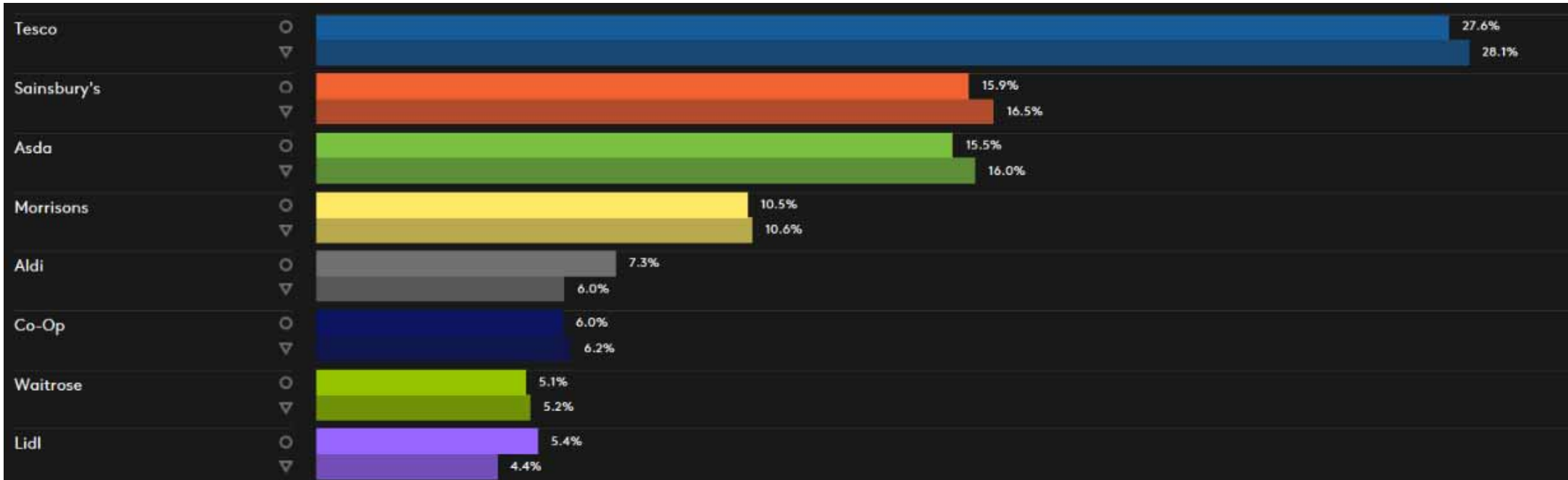
Agenda



- ▮ The context for retailers
- ▮ The changing consumer
- ▮ Retailer responses
- ▮ What might regulators worry about?
- ▮ Q&A

The changing shape of UK grocery

12 weeks to 22 April 2018 versus 12 weeks to 24 April 2016



“Big four”
-170bp

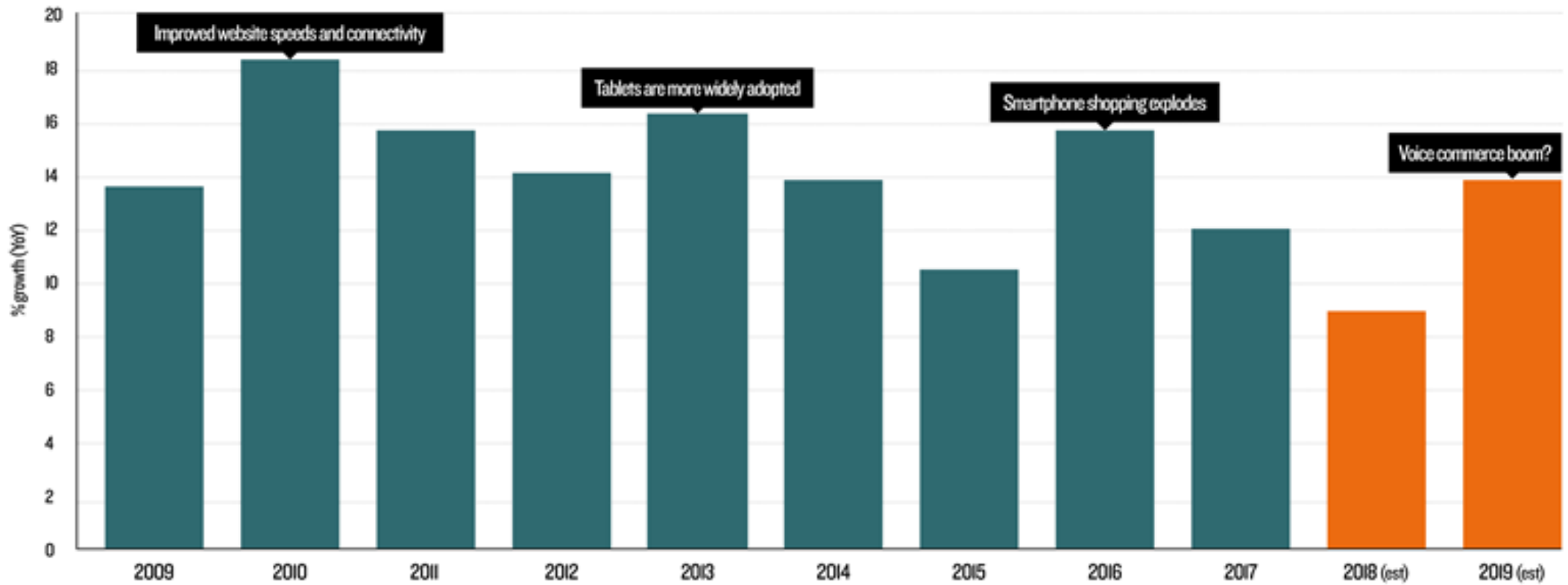


↑
Aldi & Lidl
+230bp



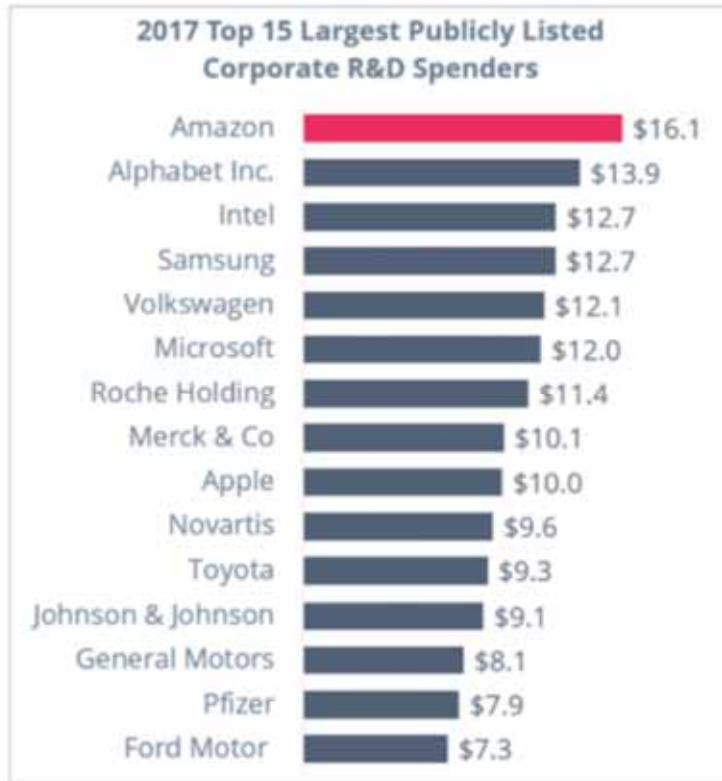
Source: Kantar Worldpanel, 2018

Growth of e-commerce in UK



Source: IMRG and Capgemini, 2018

Amazon set the pace through innovation



“Most retailers don’t have the will or persistence to work on an initiative that takes 5 years to materialise – it’s just not in their DNA”

- Brendan Witcher, Principal Analyst, Forrester, writing about Amazon Go, 2018

Amazon set the pace through acquisition



KEY ACQUISITIONS IN BILLIONS

● CASH ● STOCK U UNDISCLOSED



Source: Crunchbase, 2017

Agenda

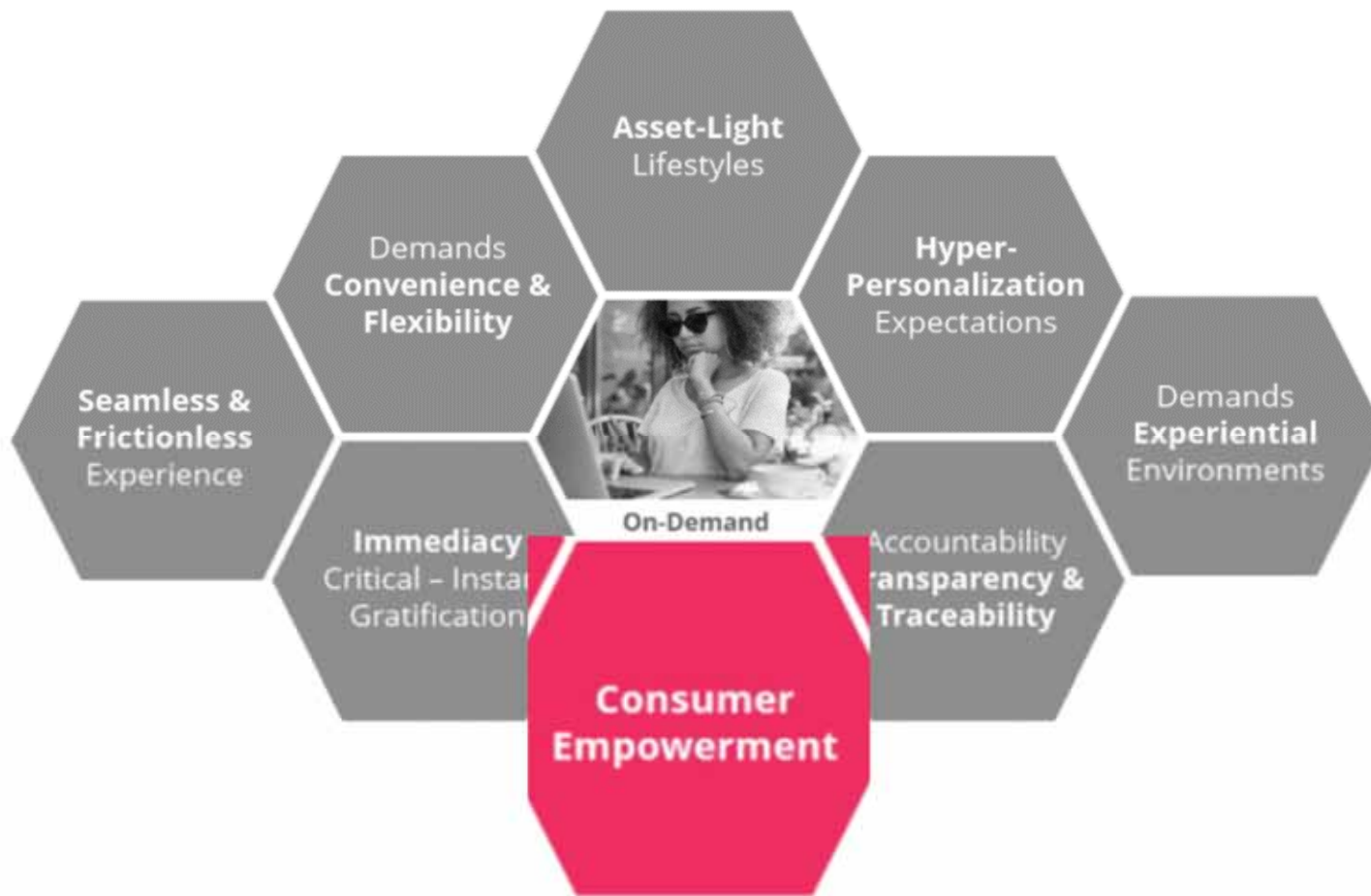


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The Changing Consumer



Source: Planet Retail RNG, 2017



The empowered consumer



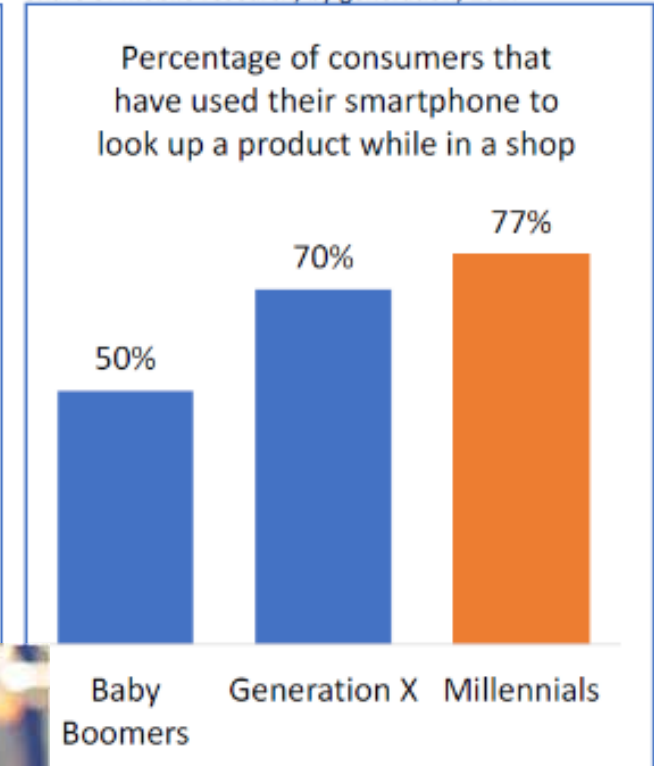
CONSUMER BEHAVIOR: PRODUCT RESEARCH¹

Types of product research conducted by consumers while in-store, 2017



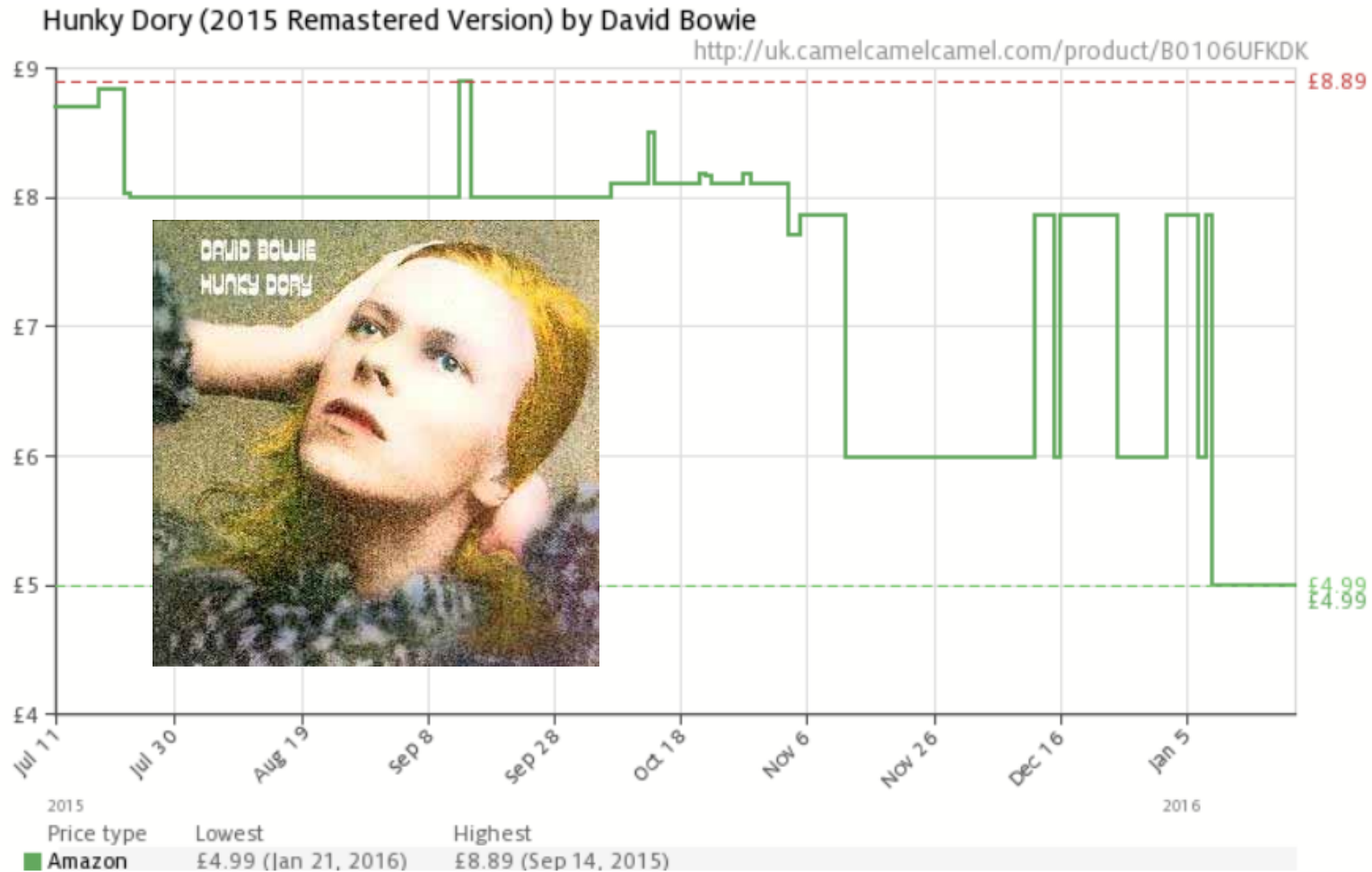
CONSUMER BEHAVIOR: MOBILE RESEARCH²

Share of mobile research, by generation, 2017



Source: Ecommerce Foundation, 2017

The empowered consumer: CamelCamelCamel



The empowered consumer: Flipper



We keep you saving



We'll tell you when we're going to flip you again, giving you the option to opt out of your next switch.

We react to the market



We monitor the market, and if your supplier is forecast to increase their prices, we'll flip you to avoid them.

We only get better



Our algorithms learn more about your usage over time, so we get even better at saving you money.



Immediacy



Next Day to Store	FREE	Order by Midnight
Next Day to Home	£3.99	Order by Midnight



'ASOS Instant'
proudly delivered by
On the dot!

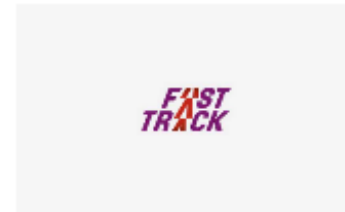
Now you can get your must-have shopping delivered between 8pm-10pm, on the same day you order.

Get shopping now and choose ASOS Instant at the checkout!



FAST TRACK. WANT IT TODAY. GET IT TODAY.

We deliver same day across the UK. Order before 6pm and we'll get on our way...



SPOT THE BADGE

Look out for the Fast Track badge on the product you want to buy



CHOOSE YOUR TIME & DATE

We deliver 7 days a week, with a choice of 4 time slots. You can place your order online or in-store.



GET WHAT YOU WANT TODAY

You'll get a 2-hour slot in your chosen delivery time and be you know when we're 30 mins away!

WHEN'S A GOOD TIME FOR YOU?



7AM - 10AM



10AM - 1PM

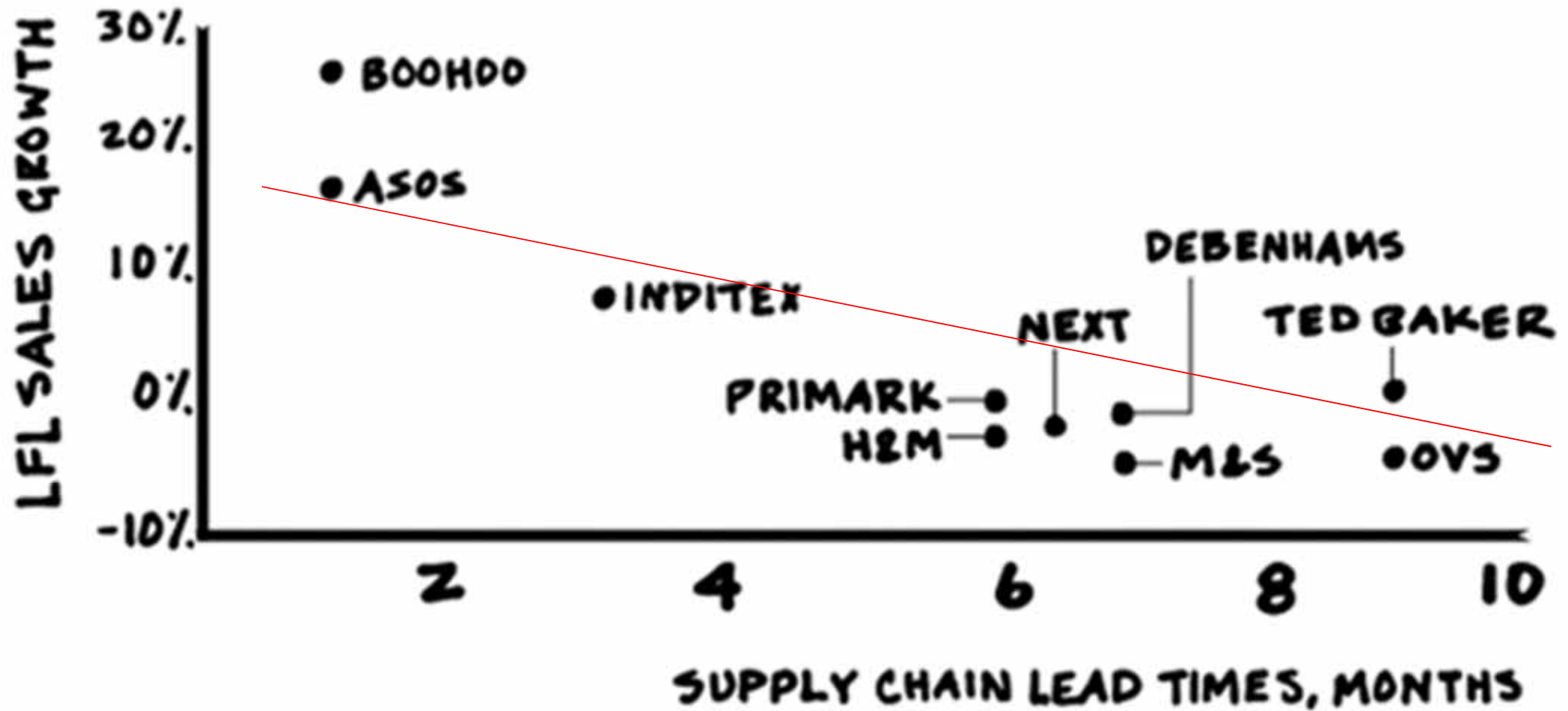


2PM - 6PM



7PM - 10PM

Sales growth v supply chain lead time, 2016



Source: Goldman Sachs, 2017

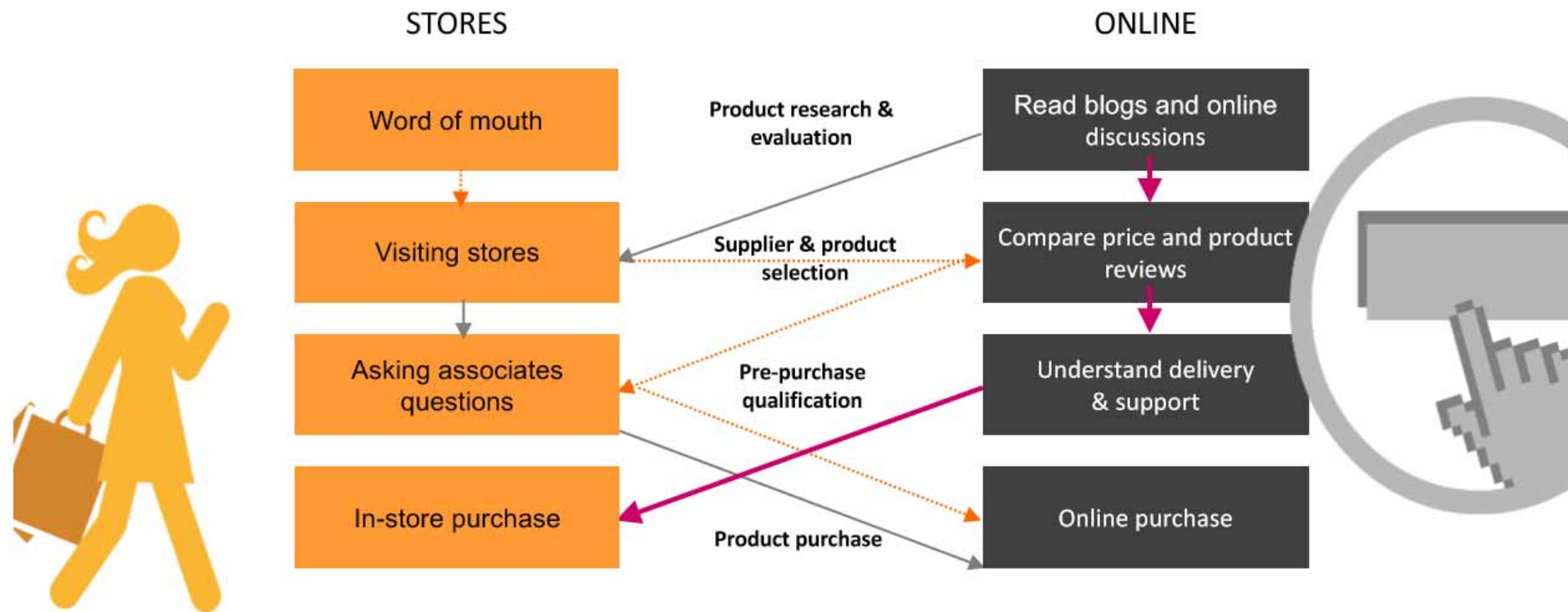
Immediacy: M&S Instagram shoppable posts





Seamless and frictionless

The New Normal



Source: Dixons Carphone, 2018

Seamless, Frictionless: Oasis, Burberry



81% of consumers demand improved response time

76% expect organizations to understand individual needs

68% anticipate organizations will harmonize consumer experiences



Source: IBM, 2018





Seamless, Frictionless: Sainsburys Euston



Seamless, frictionless: Amazon Go

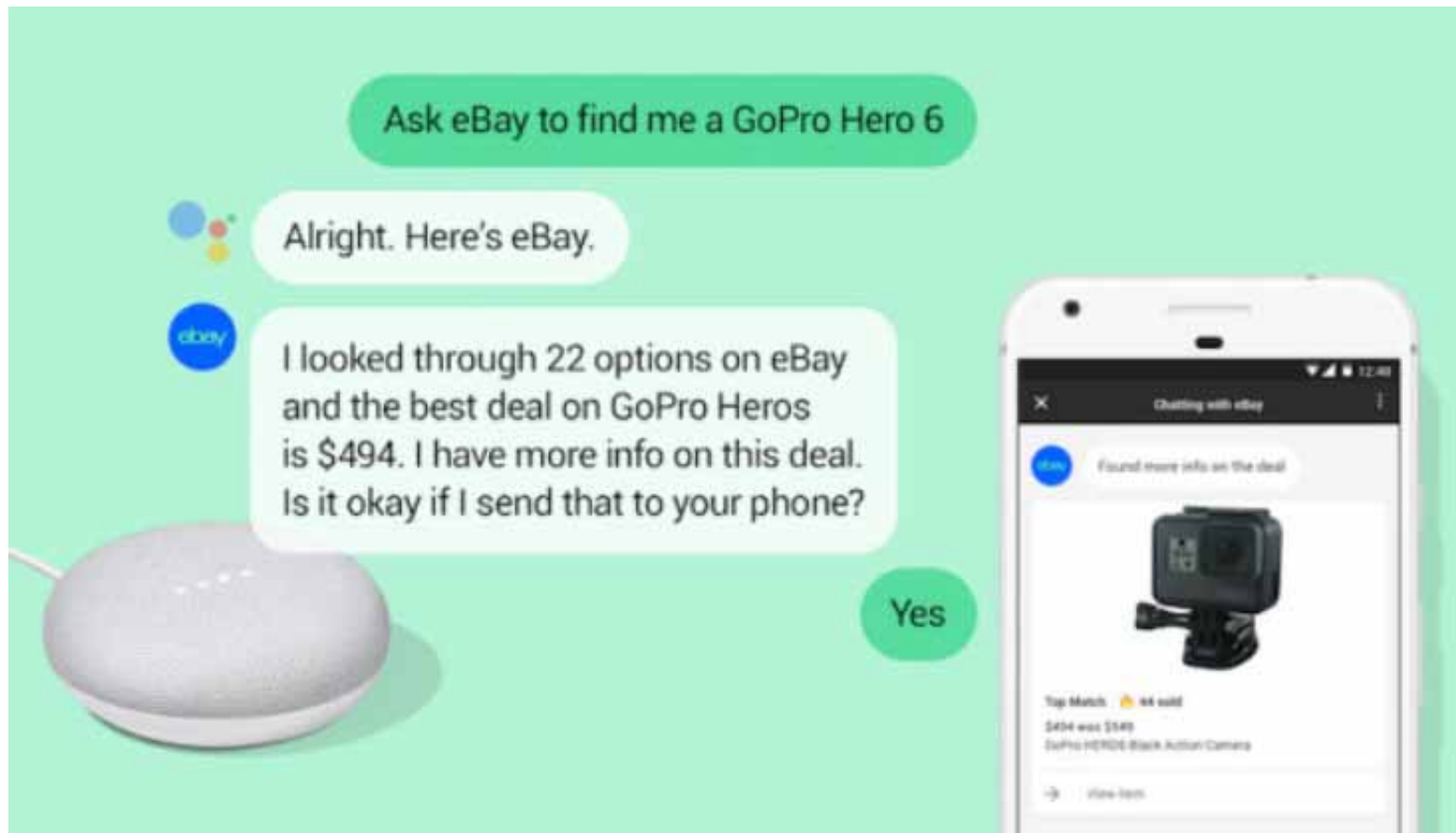


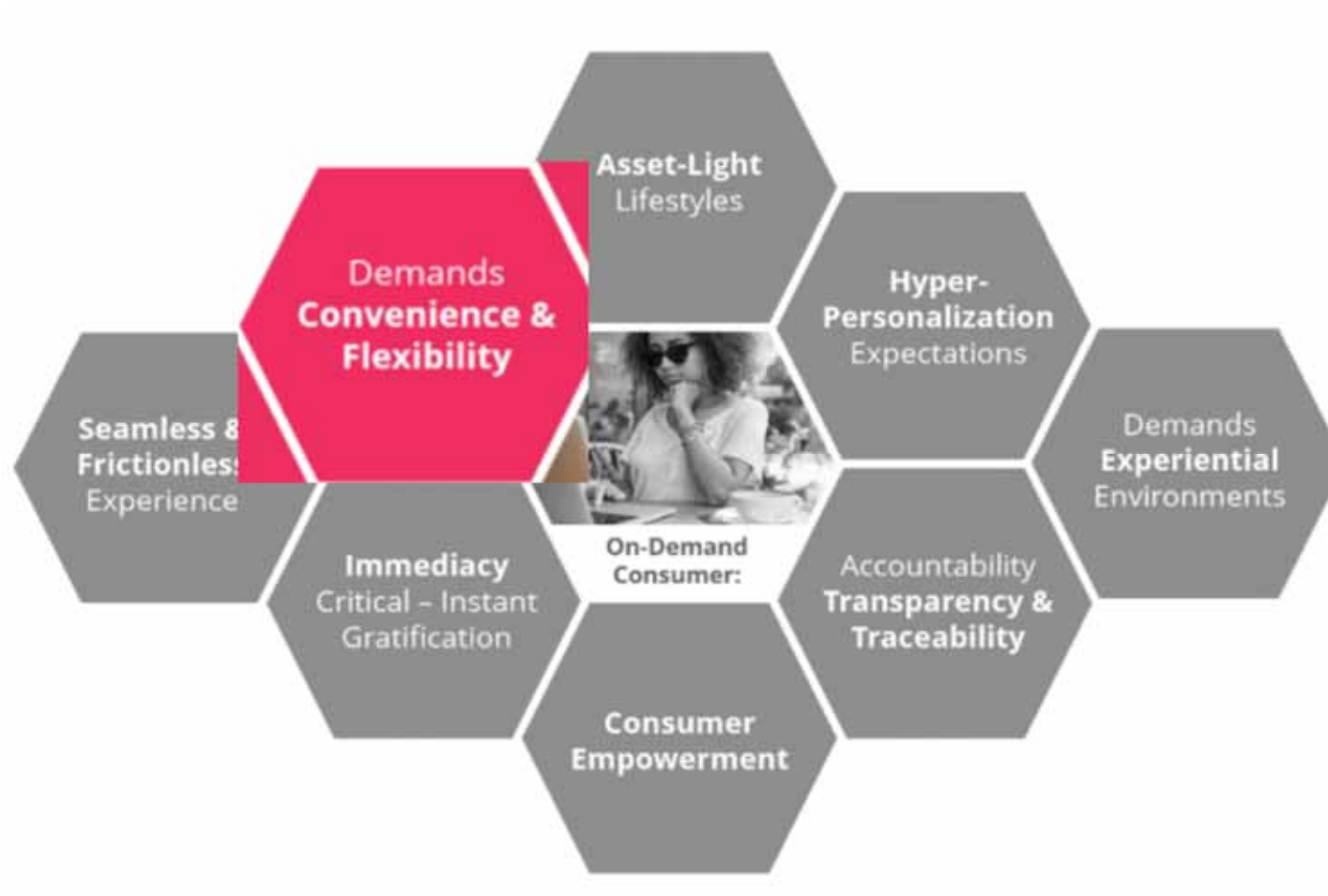
How Amazon Go works

<p>STEP 1: SCAN TO ENTER</p>  <p>© Jenny Riffe/FT</p> <p>Shoppers enter the store using a smartphone app to scan a code that is linked to their Amazon account. If a family is shopping together, they can all scan in on the same code.</p>	<p>STEP 2: PICK WHAT YOU WANT</p>  <p>© Jenny Riffe/FT</p> <p>Merchandise is spaced out along shelves that have weight sensors and plastic dividers to keep the items distinct. Some, like the sandwich pictured above, have a dot code for easy camera identification.</p>
<p>STEP 3: SECURITY SURVEILLANCE</p>  <p>© Jenny Riffe/FT</p> <p>Hundreds of cameras hang from the ceiling of the store, constantly monitoring shoppers' actions and recording which items a shopper selects.</p>	<p>STEP 4: JUST WALK OUT</p>  <p>© Jenny Riffe/FT</p> <p>When finished, shoppers simply exit the store. There is no need for them to use their smartphone again or scan anything. A receipt for their purchases will appear in the app.</p>



Seamless, frictionless cross-device shopping





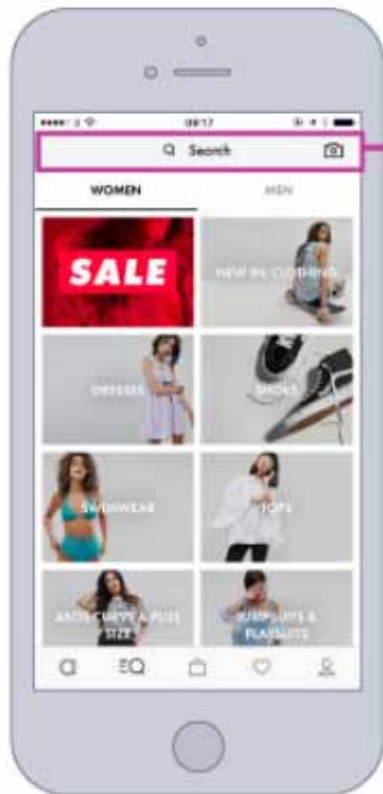
Convenience and flexibility



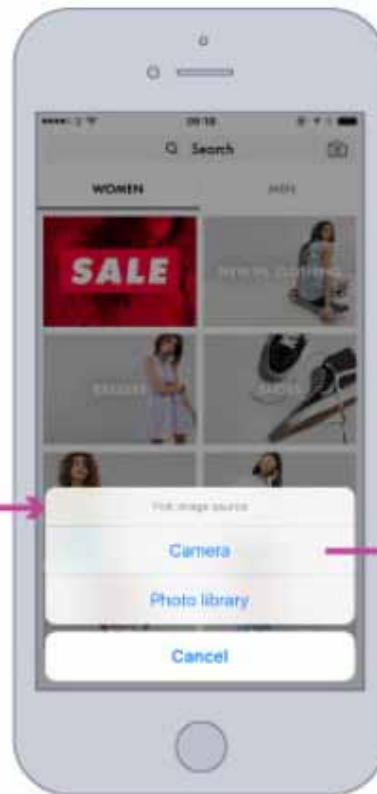
Convenience and flexibility



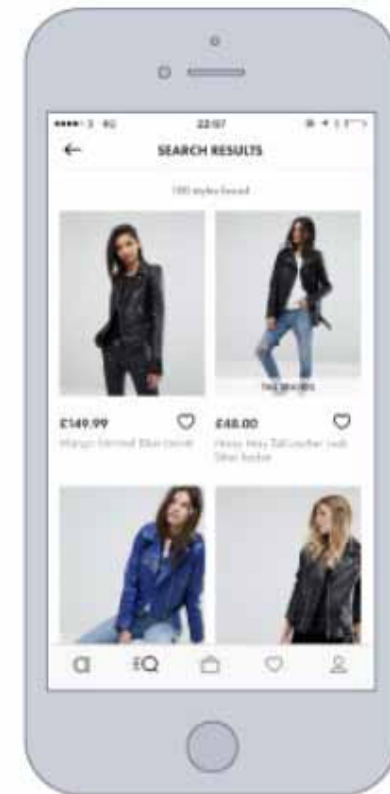
ASOS visual search



Search tab allow to select a specific category, input a keyword or a picture.

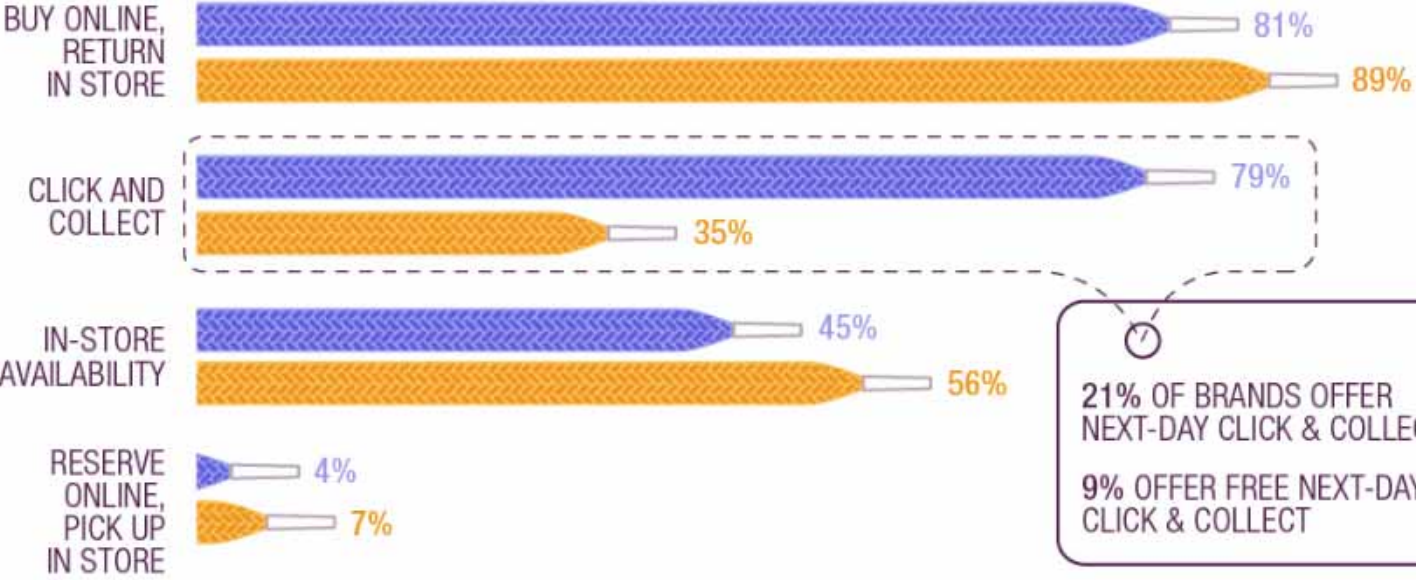


Users can select a picture taken from their smartphones or screenshots captured from the web to find similar garments.



ASOS suggests items that best match the picture uploaded. Users can buy items suggested directly on the app.

Convenience, flexibility: multichannel



UK
US

Source: Gartner L2, 2017

Fulfilment erodes pure-play profitability



Ecommerce vs Store-based Grocery Retailer Comparison of Typical P&L

	Online grocers	Store-based grocer
Revenue	100.0%	100.0%
COGS (cost of goods sold)	83.3%	79.4%
Gross margin	16.7%	20.6%
Operating expenses	16.3%	17.8%
- Store rental	0.0%	3.5%
- Personnel	3.4%	8.3%
- Fulfilment	7.4%	3.0%
- Marketing	2.5%	1.5%
- Technology	3.0%	1.5%
Operating income	0.4%	2.8%



Source: Planet Retail RNG, 2018

Fulfilment: new delivery solutions



Glue

SHARE DIGITAL KEYS

Glue replaces your physical key with an app. You can give out permanent, temporary or one-time digital keys in an instant and revoke access privileges as easily. Get instant notifications when someone unlocks or locks your door.



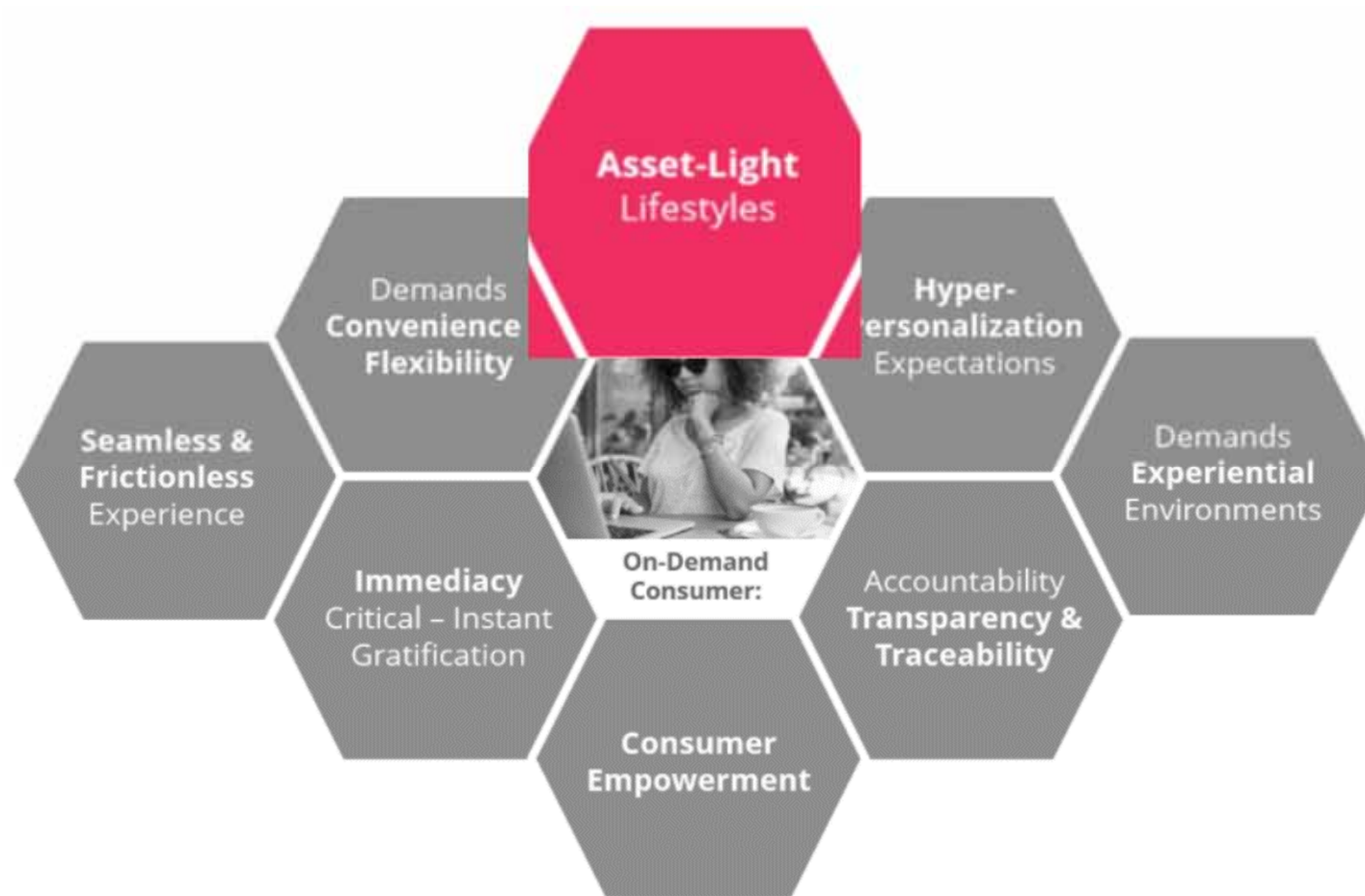
Anticipatory shipping and manufacturing

3D Printing – Real-Time Additive Manufacturing Bringing Production Closer to Demand

Amazon filed patent for trucks equipped with 3D printers – Would enable them to manufacture products on the way to customer destination



- ✓ Decentralized Production
- ✓ Real-Time Demand Responsive
- ✓ Faster Deliveries
- ✓ Personalization
- ✓ Reduces Inventory Costs



Asset light lifestyles

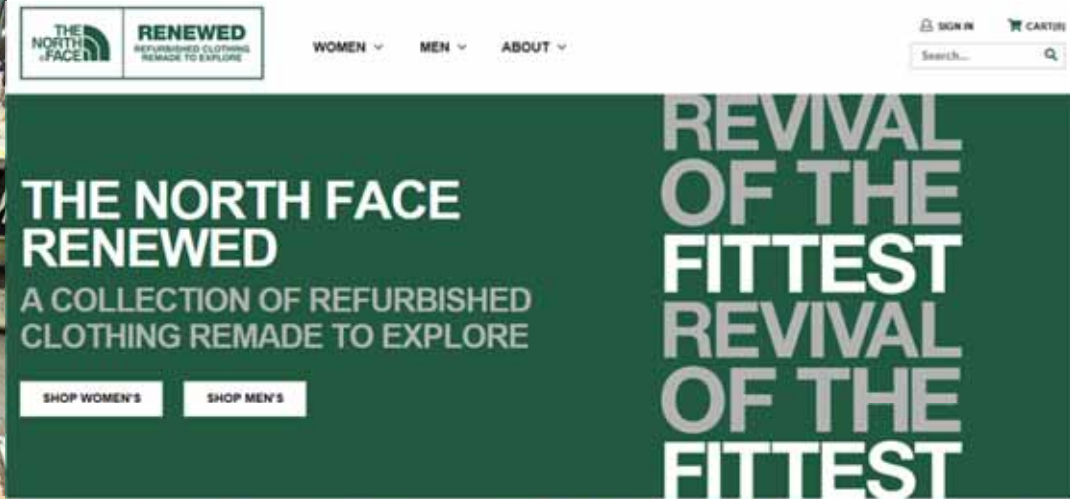


Asset light lifestyles: peak stuff and recommerce



We'll Fix It For You

Patagonia employs 45 full-time repair technicians at our service center in Reno, Nevada. It's the largest repair facility in North America—completing about 40,000 repairs per year. Our repairs team will restore the functionality of your garment so you don't have to buy a new one.



New Business Model: Dixons Carphone



Buy appliance



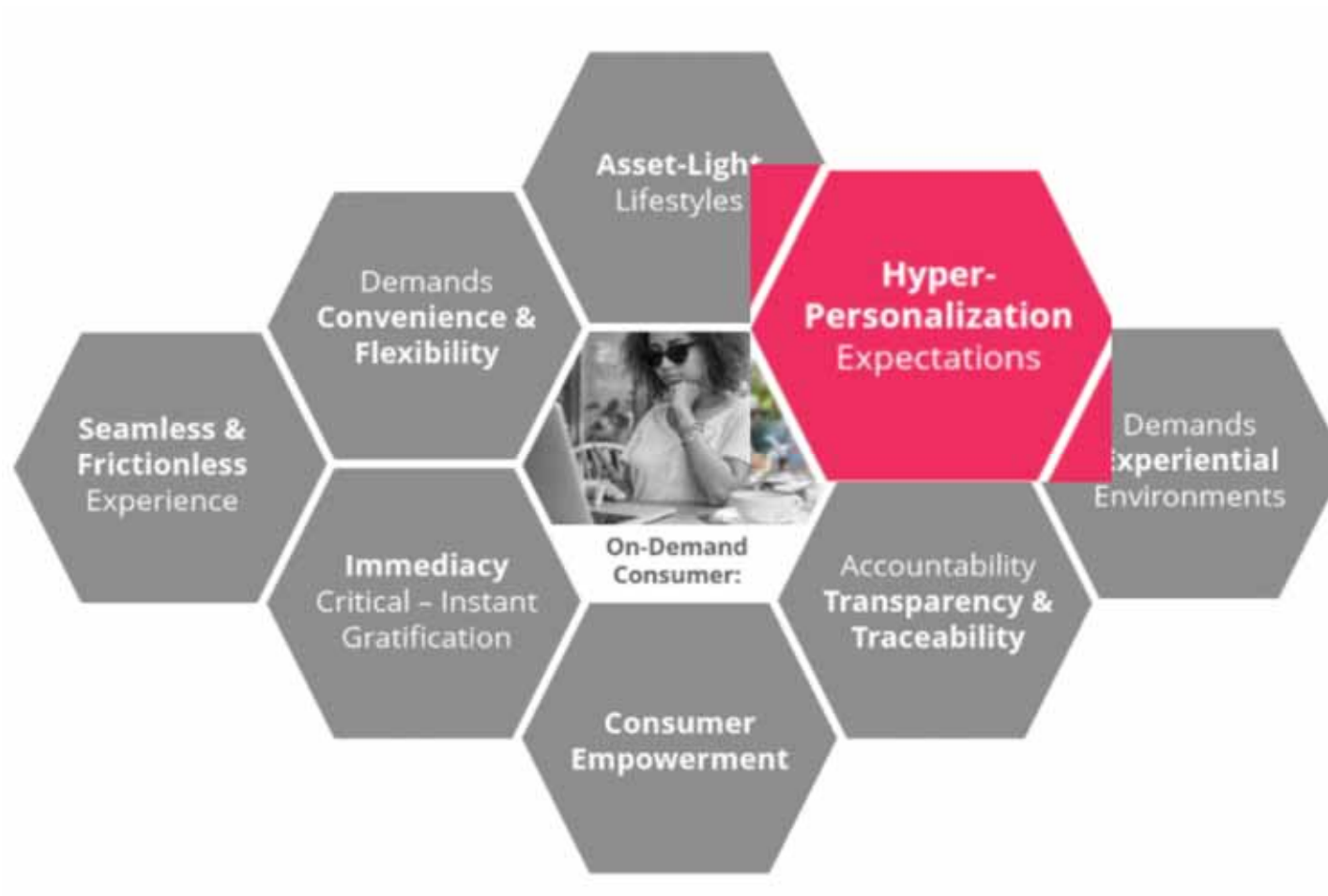
Install and connect



Upgrade and
replace



Provide content,
insure and maintain



Recognition and personalisation



Personalisation: Tesco & IFTTT

A grid of six IFTTT recipe cards for Tesco. Each card has an 'if' section and a 'then' section. The 'if' section contains a trigger icon, and the 'then' section contains the Tesco logo. Below each card is a text description of the recipe and a small icon representing the trigger. The cards are arranged in two rows of three.

if	then	Description	by	likes	hearts
🕒	TESCO	Add milk on Thursdays	tescolabs	32	1
TESCO	TESCO	if a product goes below a certain price then add it to my basket	tescolabs	55	3
☀️	TESCO	If it's warm tomorrow, add burgers to your shopping basket	tescolabs	5	0
🥚	TESCO	Add eggs to your shopping basket if you're running low	tescolabs	2	0
DO	TESCO	With just a tap, add doughnuts to your basket	tescolabs	17	0
TESCO	✉️	If the price of a product changes then send me an email	tescolabs	36	4

New Business Model: Stitch Fix



Stitch Fix Curation Powered by AI



A Stitch Fix Hybrid Design top

- The online US subscription and personal shopping service Stitch Fix sends its customers five curated pieces of clothing each month for them to decide which ones to keep. This selection of items is created using key data points extracted from Pinterest boards, customer surveys, weather patterns and personal notes to stylists. From this data, AI algorithms help the personal stylists pick out the items the customer is predicted to like most and could be equally applied to buying, merchandising and product development processes.



Experiential environments



Remote access



Experiential environments





Transparency & accountability: Everlane



EVERLANE

EVERLANE



SOUTHERN VIETNAM
Bien Hoa

HOURS
5:31 PM

EMPLOYEES
3900

ESTABLISHED
2008

BEHIND THE SCENES

Saitex International

Meet Saitex, our game-changing denim factory. Unlike typical manufacturers, their LEED-certified facility recycles 98% of its water, relies on alternative energy sources, and repurposes

We believe we can
all make a difference.

Our way: Exceptional quality.
Ethical factories. Radical Transparency.

Our Cost Breakdown

We reveal the costs behind every aspect of our production process.



Materials
\$18.25



Labor
\$29.16



Transport
\$1.47



Duties
\$4.75



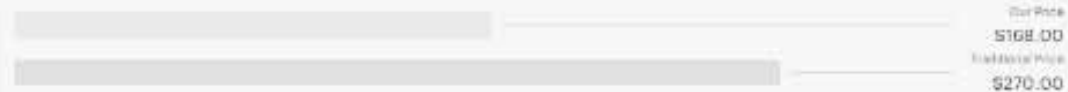
Insurance
\$0.00



True
Cost
\$54.00

Our Price vs. Traditional

On average, traditional retailers mark their products up 5-6x, (50-60% profit).



Pay what you want



Leveling the paying field: LA cafe lets patrons choose prices - and hasn't lost cash

At Metro Cafe, customers have been known to pay more than \$100 for coffee while others pay the \$1 they can afford: 'It's about community'



Agenda

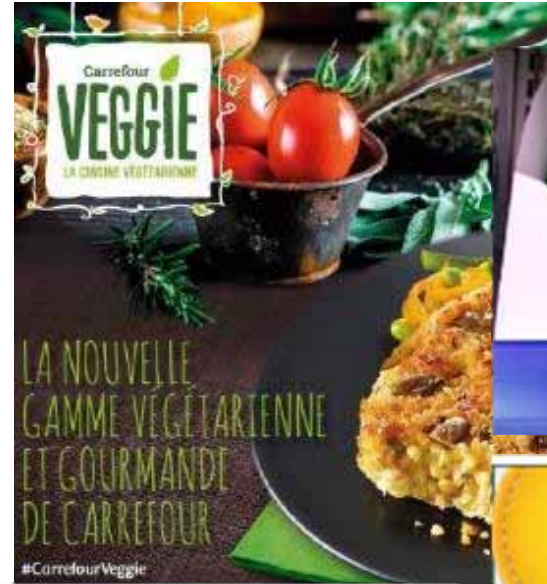


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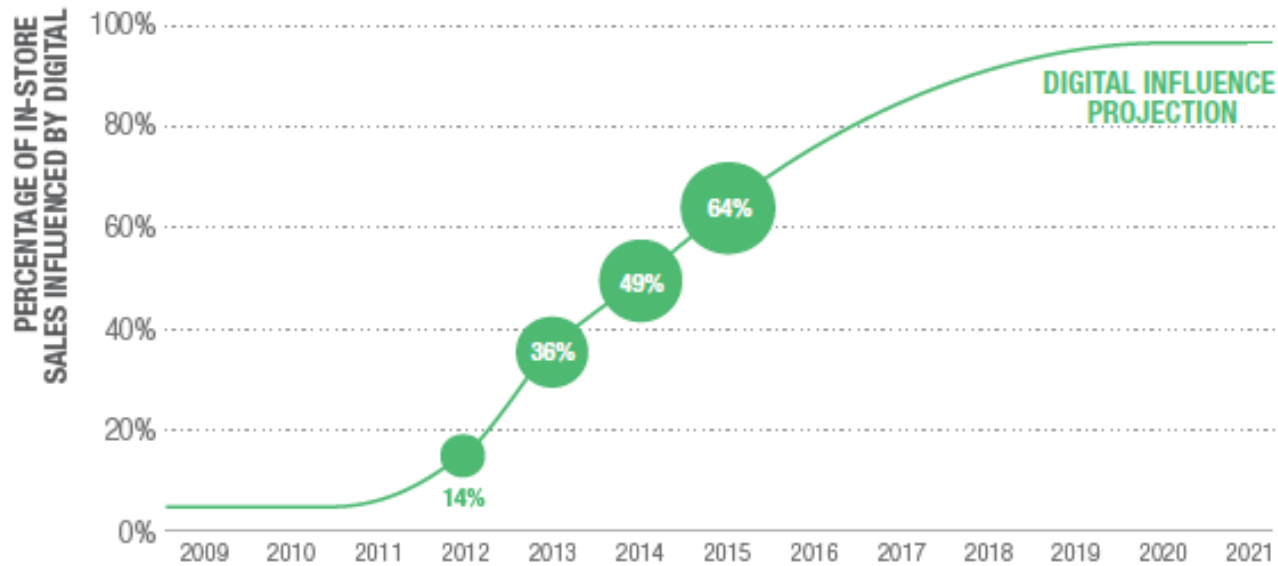
Combating price transparency: Pets at Home



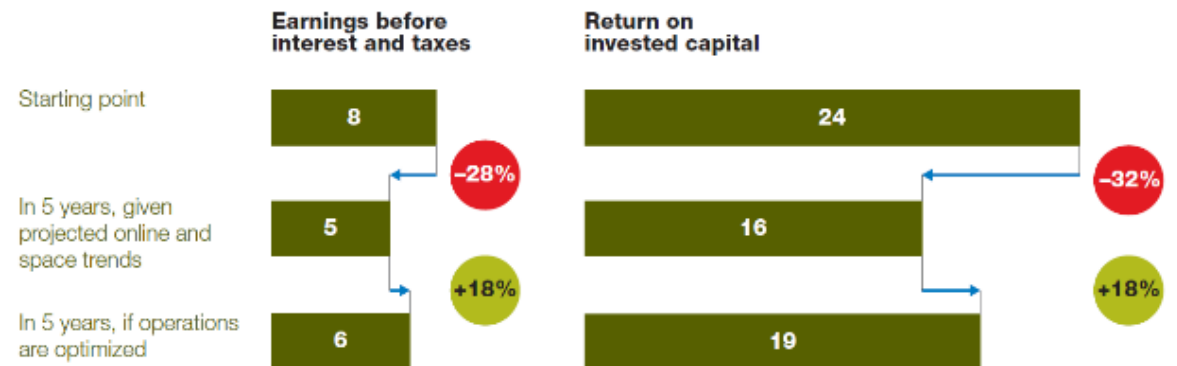
Combating price transparency: Private Label



The economic squeeze on stores

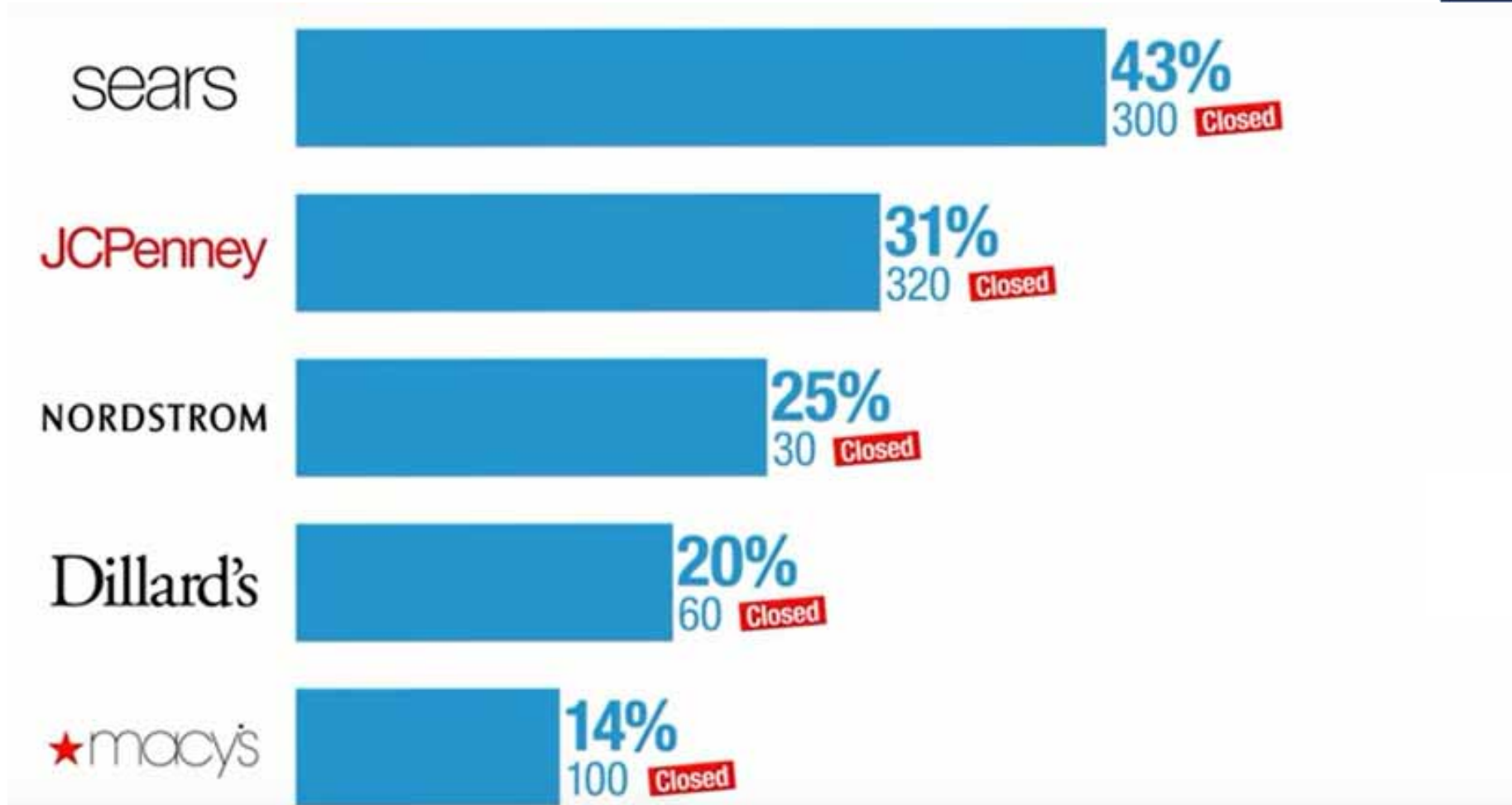


Estimates for US retail company, assuming a 5% decline in sales per square foot over 5 years, % of sales



Source: Deloitte, 2015; McKinsey, 2014

Store closures to restore 2006 sales per ft²



Source: Green Street Advisors, 2016

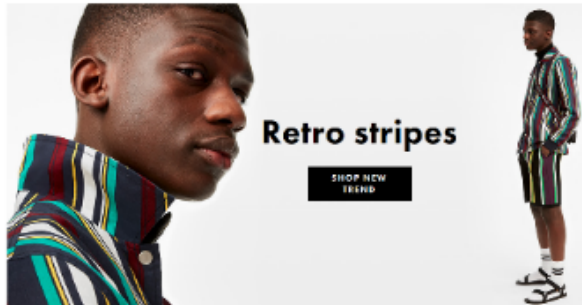
Sainsbury's Nine Elms



Convenience spreads beyond grocery



Competing with Amazon et al



Style



Destined to be different since 1844.

Heritage

MADE IN
BRITAIN
THE RIVER ISLAND STORY

WITH MORE THAN 80 YEARS OF HISTORY IN THE BAG, OURS IS A BRAND WITH AN IMPRESSIVE HERITAGE.

WAR-TORN LONDON TO 60'S FASHION HOUSE
From the remains of a North London bomb site, our founder Bernard Lewis, named 'The Wool Shop', growing into a 70-store empire by 1965, Lucie Sekouwer transforms into Chelsea Girl, the UK's first 'topshop' boutique chain, fuelling bold fashion statements with 60's pop.

UK FASHION LABEL TO INTERNATIONAL BRAND
Bernard's son Leonard launched a menswear range 'Concept Man', then rebranded the whole business in the early 90's under the guise of 'and coming tomorrow' River Island. Today, it's one of the biggest names on the high street, with a reputation that's growing worldwide.

Local



Ethics

Humanity



Theatre



Services



Expertise



The physical store, 2030?



Indoors

Greater brand involvement through shop-in-shop or brand implants



Fresh and foodservice takes centre space, including made-in-store capabilities



Augmented reality used within the store to offer personalised experience, navigation and promotions



Rotating product range of curated exclusives - to provide excitement and treasure-hunting



Community and social functions, such as library, childcare, classrooms



Physical checkout replaced by "just walk out" technology



Experiential retail to the fore



Shopper recognition to allow personalised and checkout-less experience



Greater brand involvement through shop-in-shop or brand implants



Outdoors

Fresh local produce grown within the store or on the roof



Sustainable store



Drone/robot fulfilment direct from the store



Curbside pickup of online orders for convenience



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Retailers have multiple responsibilities

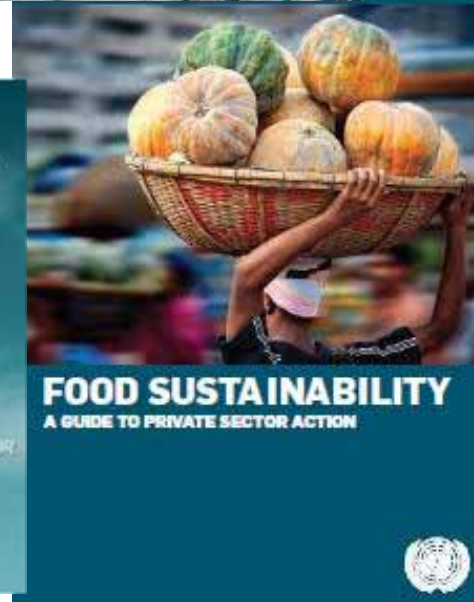
UK supermarkets launch voluntary pledge to cut plastic packaging

Critics say retailers can pick and choose whether to sign up to Plastics Pact, a series of pledges that have no enforcement mechanism



Amazon paid just £15m in tax on European revenues of £19.5bn

Online retailer's UK warehouse and logistics operation more than halved its corporation tax bill from £15.8m to £7.4m



Tesco's "farm" private label range



Time limited discounts



What is the policy for Exclusive Offers?

- Valid only during this visit on Staples.com. Exclusive Offer expires after 20 minutes of inactivity from staples.com. Inactivity is not clicking on the site.
- To get the Exclusive Offer discount, add the product to your cart and purchase before the offer expires.
- Discount may only be used once, applies to only the specified item, and is applied prior to tax.
- Discount cannot be transferred.



PRODUCTS ▾ TECHNOLOGY ▾ SERVICES ▾ SHOP BY INDUSTRY ▾

New day. New Daily Deal. Get it before it is gone. WEEKLY

Networking Equipment / WiFi / Wireless Routers ▾

NETGEAR Nighthawk AC1900 Smart WiFi Router R7000-100NAS **\$199**

Item: 280401 Model: R7000-100NAS

★★★★★ Read 42 Reviews

SquareTrade Protection
2 Year Protection Plan

SAVE AN EXTRA \$30.00 on this product!
\$169.99 in cart. Valid for 20 minutes. See details +
Plus, get an additional 5% back in Rewards!

QTY: 1 **ADD TO CART**
Add to Favorites

SHARE: [Facebook] [Twitter] [LinkedIn] [Email]

CUSTOMERS WHO VIEWED THIS ALSO VIEWED:



THE MYER
IN 6 SECONDS
SALE

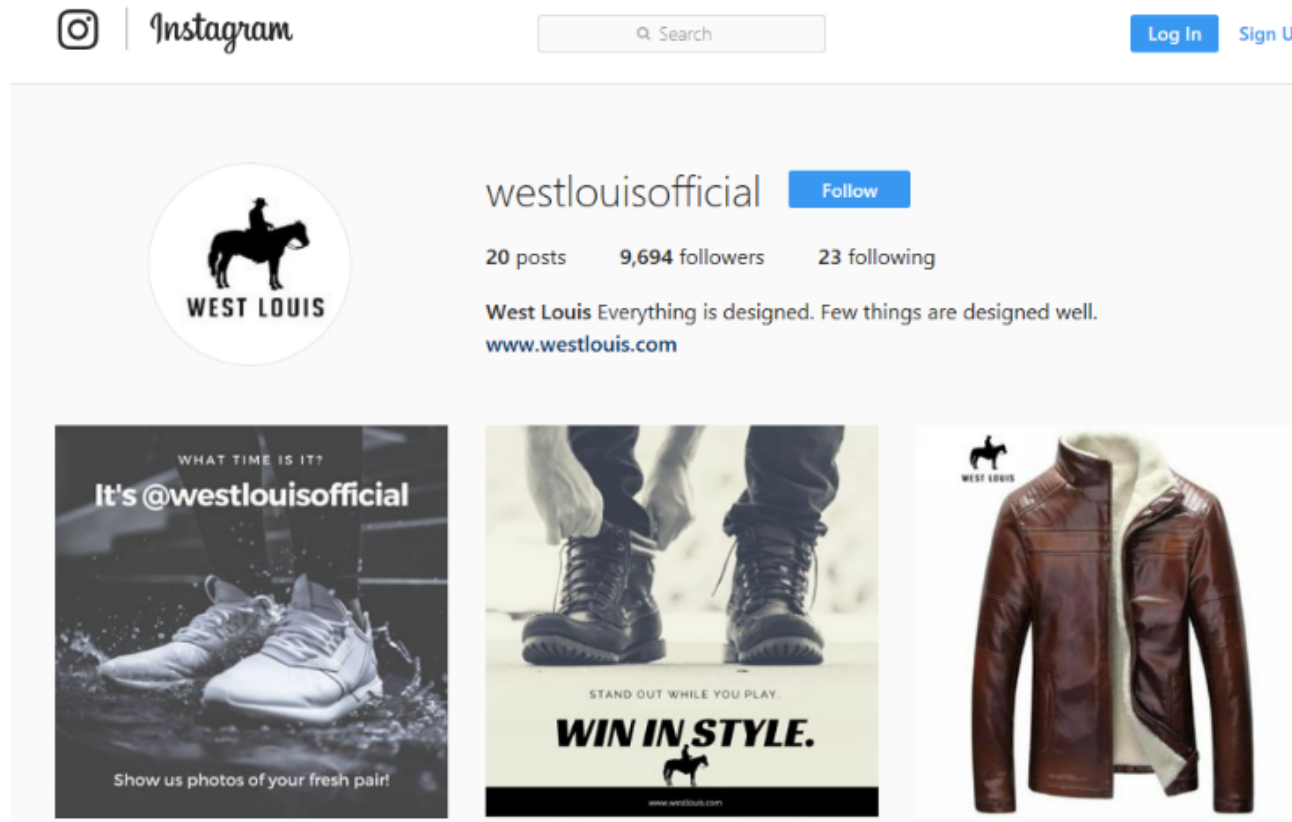
GOPRO
GOPRO HERO 4 - BLACK EDITION

\$312.00
EXPIRES IN 3
SAVE \$467

HERO4

Click NOW for deal
secondsale.myer.com.au

Consumer-to-consumer commerce



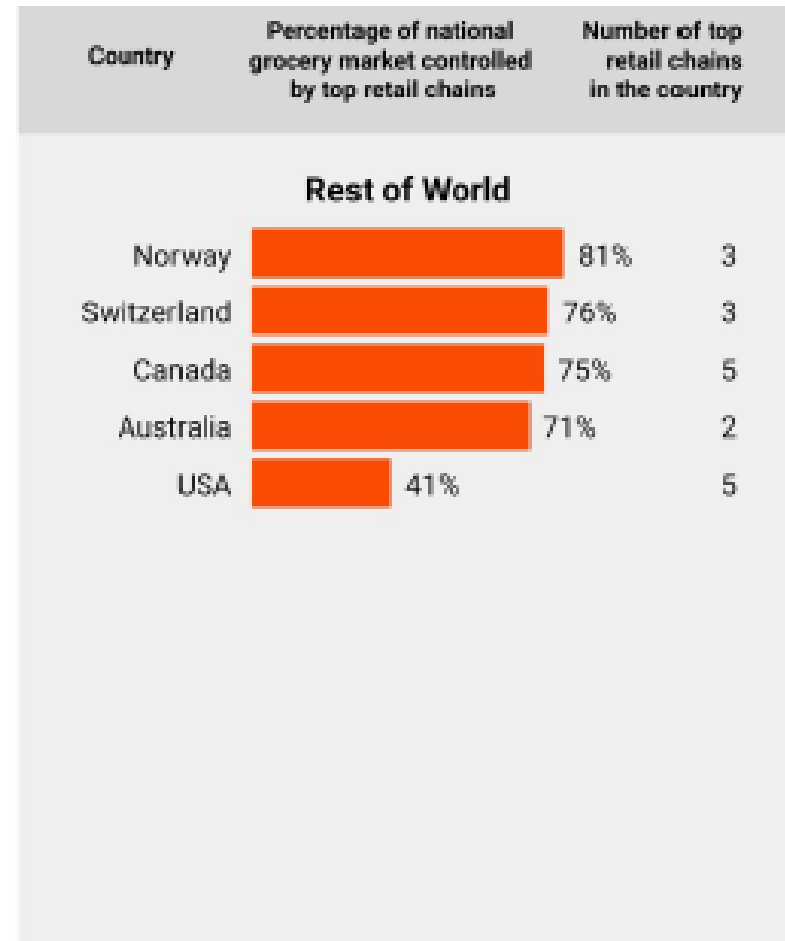
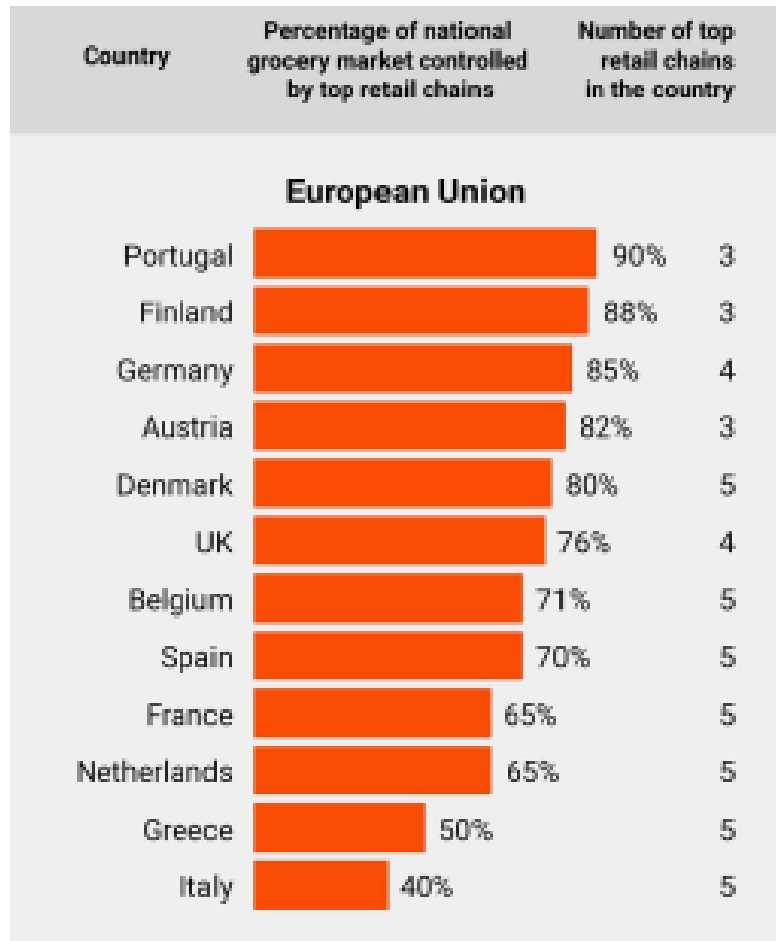
“The softness of a Las Vegas carpet and the rich sheen of a velour jumpsuit, with fabric so synthetic it could probably be refined into bunker fuel for a ship”

Alexis Madrigal, The Atlantic

Electronic shelf-edge labels



Grocery industry concentration



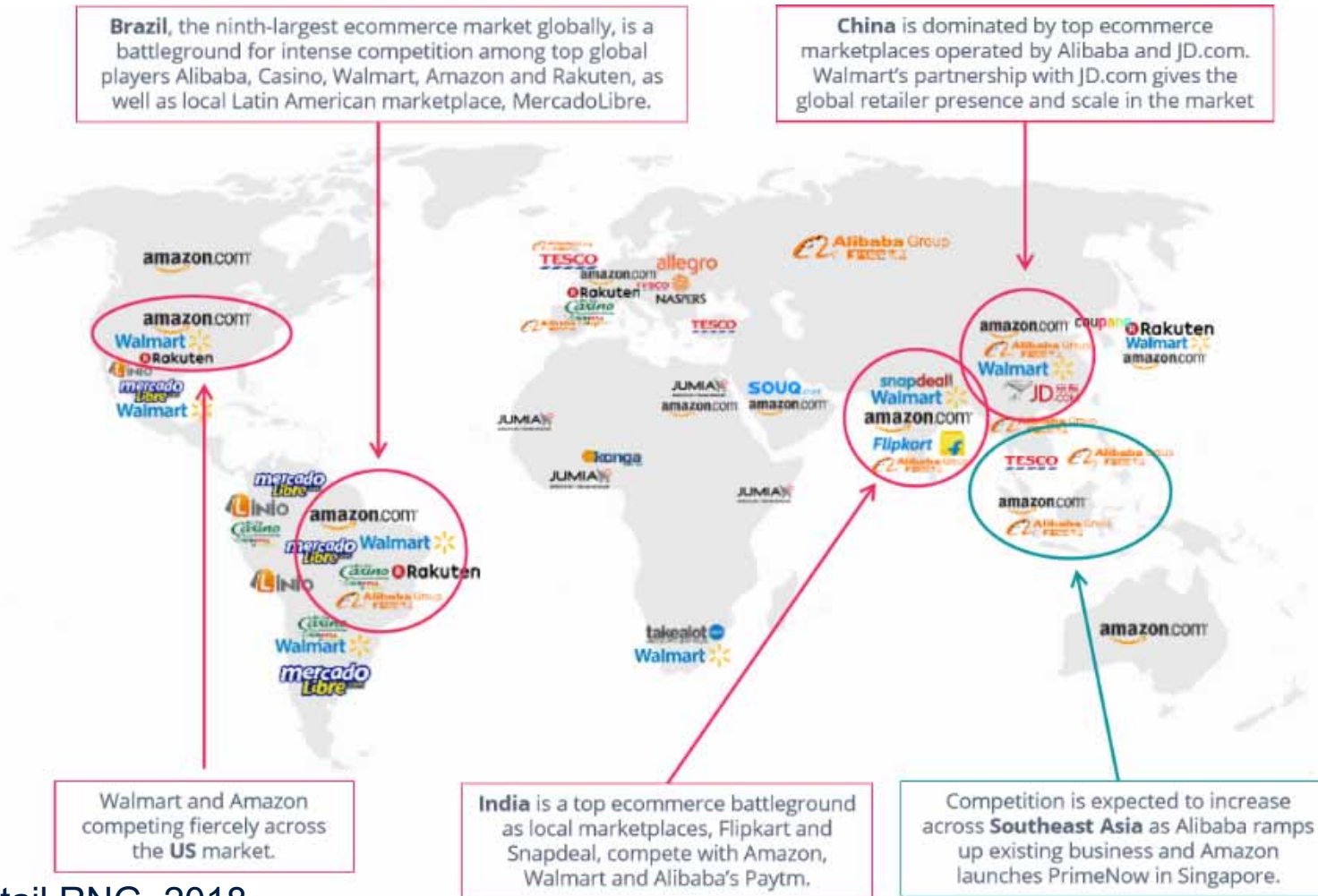
Source: Consumers International, Planet Retail, Nielsen, 2017

E-commerce concentration



Source: Planet Retail RNG, 2017

Marketplaces



Source PlanetRetail RNG, 2018

Competitors collaborating



2002



2013



2016

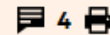


Competitors collaborating

Ocado unveils tie-up with France's Groupe Casino

Deal to build robotic warehouse facility is part of online grocer's tech transformation

Mark Vandeveld and Naomi Rovnick in London NOVEMBER 28, 2017



UK group Ocado will build a robotic warehouse for French retailer Groupe Casino, in the latest sign of established chains embracing an online shopping trend that threatens to ruin the economics of many of their own stores.



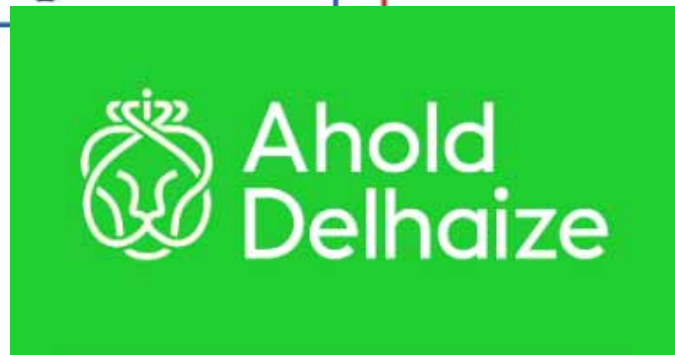
Amazon partners with French retailer Monoprix to launch Prime Now grocery deliveries in Paris

Catherine Shu @catherineshu / Mar 27, 2018

Comment

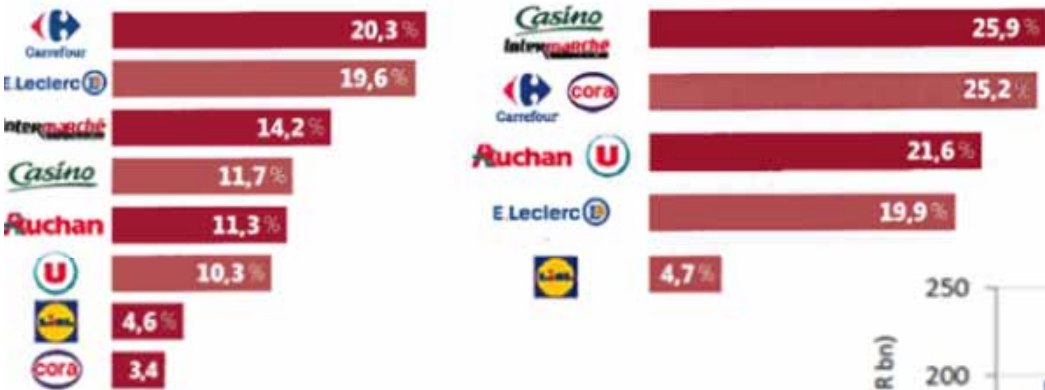


Mega-mergers



Growth of buying alliances

> Début 2014 (en CAM à P13 2013) → > Fin 2014 (en CAM à P12 2014, en cumulant les alliances)



EC guidelines on horizontal agreements (para. 194)

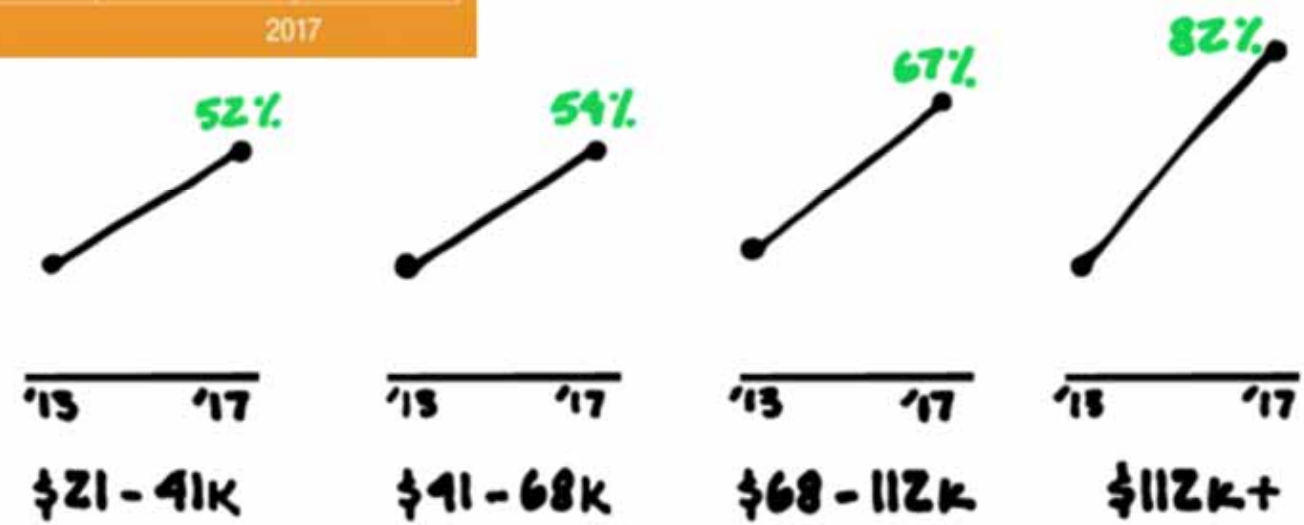
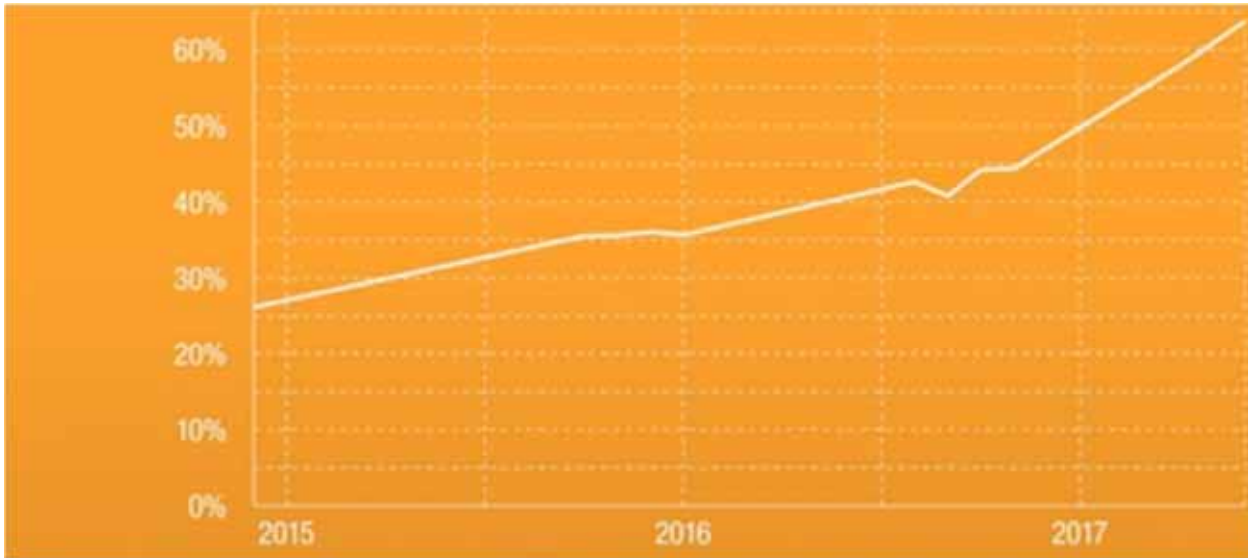
“Joint purchasing arrangements usually aim at the **creation of buying power** which can lead to **lower prices** or **better quality products** or services for consumers. However, **buying power may, under certain circumstances, also give rise to competition concerns.**”



EMD: Operating Markets and Member Companies

Countries	Member Companies of EMD
United Kingdom	ASDA
Netherlands	Superunie
Germany	Markant AG
France	Groupe Casino
Switzerland	Markant Syntrade
Spain	Euromadi Iberica
Portugal	EuromadiPort
Austria	Markant Österreich
Italy	ESD Italia
Norway	Unil/NorgesGruppen
Australia	Woolworths Ltd.
Finland	Tuko Logistics
Sweden	Axfood
Denmark	Dagrofa
Czech Republic	Markant/Kaufland Cesko, Globus
Slovakia	Markant/Kaufland Slovensko
Poland	Kaufland
Croatia	Kaufland
Romania	Kaufland
Bulgaria	Kaufland
Russia	Globus
New Zealand	Progressive Enterprises Ltd

Amazon Prime membership, US



Source: GartnerL2, Piper Jaffray, 2018

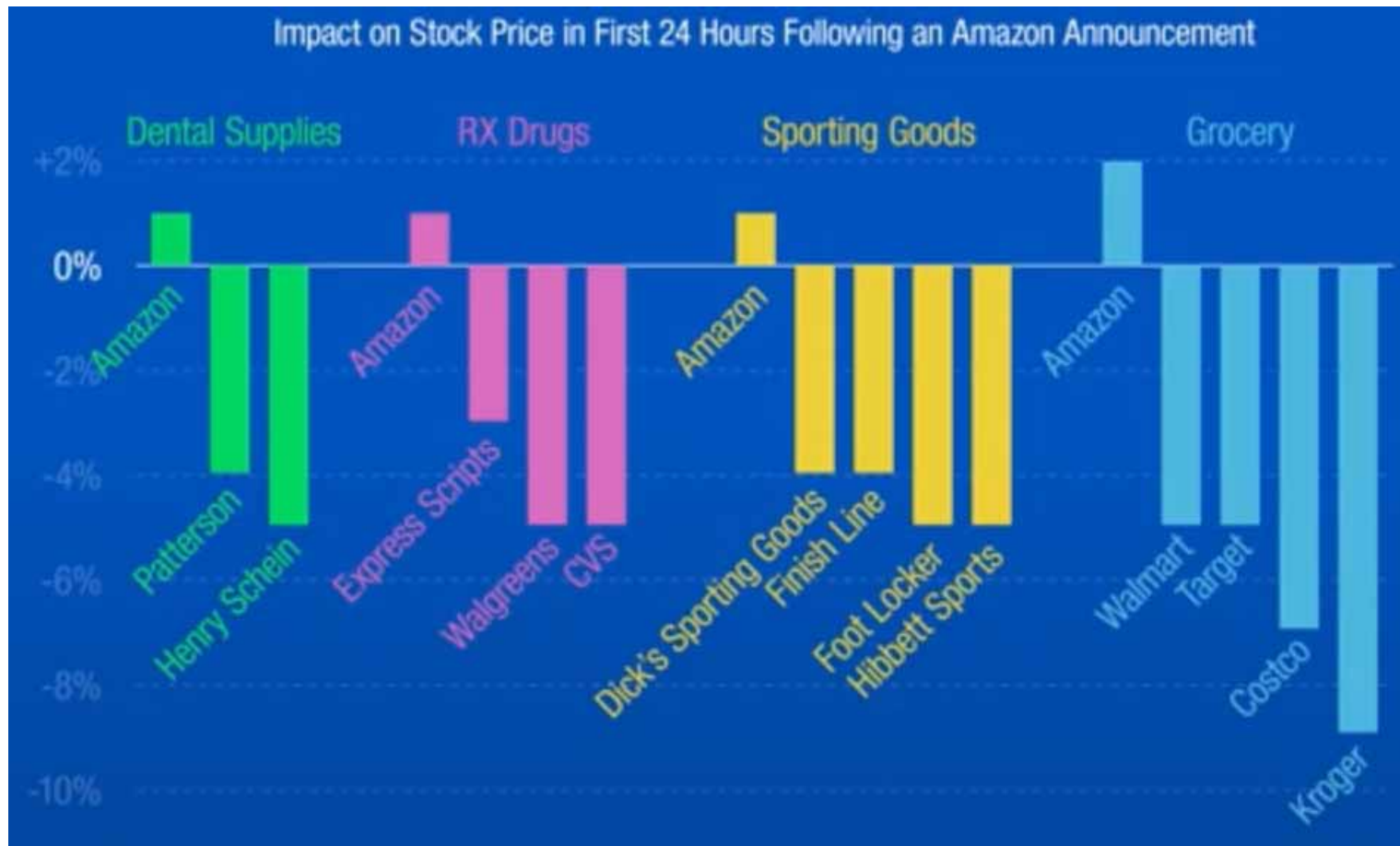
The Amazon Effect



Retailer	Market Value 2006	Market Value Today	% Change
Sears	\$27.8B	\$448M	▼98%
JC Penney	\$18.1B	\$1.1B	▼94%
Macy's	\$24.2B	\$6.9B	▼71%
Kohl's	\$24.8B	\$7.8B	▼69%
Nordstrom	\$12.4B	\$7.3B	▼41%
Best Buy	\$28.8B	\$17.6B	▼39%
Target	\$51.3B	\$31.4B	▼39%
Walmart	\$214.0B	\$291.1B	▲36%
Amazon	\$17.5B	\$569.3B	▲3,153%

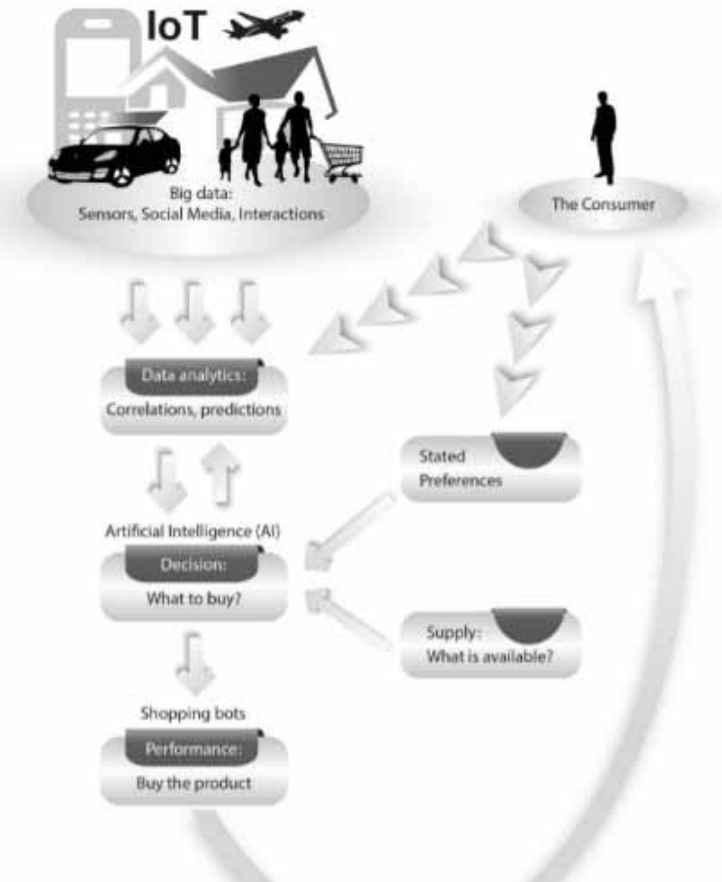
Source: Gartner L2, using Yahoo Finance data, 2017

The Amazon Effect



Source: Gartner L2, using Yahoo Finance data, 2017

Algorithmic consumers – the death of irrationality



Source: Gartner L2, 2017; “Algorithmic Consumers”, Gal, M.S, and Elkin-Koren, N., University of Haifa, 2016





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